

3-12-2012

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Inter-American Dialogue's Latin American Energy Advisor

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Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "Does Insecurity Threaten Colombia's Booming Oil Sector?." (2012).
https://digitalrepository.unm.edu/la_energy_dialog/126

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Q and A: Does Insecurity Threaten Colombia's Booming Oil Sector?

Citation: Inter-American Dialogue's Latin American Energy Advisor, March 12-16, 2012; pp. 1, 4, 6. Also online at www.thedialogue.org.

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Colombia's ELN rebels kidnapped 11 oil workers last month and released them last week. However, as a result of the security situation, Emerald Energy, which is owned by China's Sinochem, announced that it has suspended operations in southern Colombia. It is the second time the company has suspended operations there, adding that some of the trucking firms it works with are refusing to provide services due to the risk. Is Colombia's security situation threatening to hold back its booming oil sector? Will security problems in Colombia's oil-producing areas get worse or better in the near term? What steps should the government be taking to lessen the risk?

A: John P. Philbin, director of crisis management at Regester Larkin Energy:

"While the ELN released the kidnapped oil workers unharmed, the fact that the workers were kidnapped as a statement against oil infrastructure development does not bode well for a cessation of ELN actions against petroleum projects. The ELN has issued demands on their Web site for a tax against extracted oil, a moratorium on development in sensitive environmental and all indigenous areas and reparations for environmental and social damage in exchange for a halt in attacks. However, since the government is unlikely to grant these demands, the threat against energy projects in the Arauca region remains elevated. Despite the risk, it is unlikely that these kidnappings will cause any serious setback to the rapidly growing oil sector in Colombia. As multinational oil companies pursue opportunities in more remote and dangerous regions, they must be prepared to protect their personnel, assets and reputations to the fullest extent permissible by laws and regulations. Corporations can mitigate their risk by developing policies, procedures and plans that ensure those who will be operating in these high threat areas understand the risks involved and what to do when situations that threaten life and company assets emerge. In Colombia, coordination and cooperation with government security forces is a key part of the security equation and required where additional security measures are indicated; but, the government cannot guarantee security. Sophisticated oil and gas operators increasingly deploy locally tailored corporate social responsibility (CSR) programs in high-risk areas that help mitigate threats. Companies viewed locally as contributing to the welfare of these communities may reduce their risk of direct action, especially over the long term."

A: Carlos Bellorin, senior petroleum analyst at IHS in London:

"It is worrying that attacks to oil infrastructure have been on the rise since they slowed to their lowest level in 2008. However, it is a trend (started in March 2011) that can be reversed with the

right political and military strategy. Colombia has a fantastic legal, fiscal and regulatory hydrocarbons regime, good geology and a demonstrated capacity to handle security risks efficiently; investors know this. However, these attacks could delay finding partners and financing to increase the much-needed oil transportation capacity in Colombia and this will have a direct impact on E&P projects. There are more than 80,000 troops deployed for protecting oil infrastructure and personnel in Colombia, which means that about 12 soldiers are protecting one Barrel of oil produced. This is a massive commitment of resources by the Colombian government. In August 2011, President Santos announced a new counter-insurgency strategy that is being implemented and, with the right modifications, it will certainly mitigate and reduce the attacks in the near term. Also, operationally, the FARC cannot sustain the momentum and pace of the attacks in the short run. Many of the attacks have been in critical areas such as San Vicente del Caguán in the case of Emerald Energy and on the Caño Limón-Coveñas pipeline, which has been a traditional target. The government should adapt its strategy to counterbalance the small-unit operations carried out recently. It should also involve the Venezuelan government to avoid insurgency groups seeking safe haven after the attacks on the Caño Limón-Coveñas pipeline, which is located near the border. More importantly, it must try to compel a dialogue with the FARC to engage them in credible peace talks."

A: Roger Tissot, member of the Energy Advisor board and independent energy economist:

"The country is at crossroads and is closer to a possible peace negotiation with the insurgents. But success in its search for a peace agreement requires bold and risky initiatives. President Santos has been courageous with the promotion of legislation aimed at settling the claims from thousands of peasants who lost their lands as a result of violence. Powerful political and economic interests seem set on not wanting this legislation to succeed. Colombian conflict has always been about land. All the other issues (drug trafficking, paramilitaries, etc.) have added to the conflict; but, in its essence, it is a land tenure conflict. In addition to successful restitution of land to the victims, Colombia also has an employment problem. Colombia is stuck in the 'middle income trap,' and the sectors promoting growth (oil, mining) are not labor intensive. The rest of the economy is not doing as well, and the appreciation of the peso makes matters worse. Most of the new oil activity in Colombia will occur in the Llanos area, a region sparsely populated where grievances against an absent government runs high. It is also a region where guerrilla presence is still strong and, until recently, acted as the only authority. It is unrealistic to think the armed forces can secure the entire petroleum infrastructure, which includes thousands of kilometers of existing and under-construction pipeline and a large number of operations by a very diverse set of companies. The only option to reduce the risk is to redouble efforts to increase government presence and services in producing areas. Unfortunately, local administrations have proven to be incompetent at managing the vast resources for which they were entitled. The new redistribution of oil royalties may help reduce corruption and inefficiencies. But it also increases the risk of a centralized government using the resources in areas with high political impact—namely, large urban centers—and thereby worsening income inequalities between the center and the periphery in Colombia."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at skuleta@thedialogue.org with comments.